

U.S. Embassy - Skopje

ECON NEWSLETTER 7/2002

OIL PIPELINE SKOPJE-THESSALONIKI PUT IN USE

Macedonian Prime Minister Ljubco Georgievski and Greek Minister of Development Akis Tsohatzopoulos put oil pipeline Skopje-Thessaloniki in use on July 2, 2002. This is one of the largest projects in the energy sector in the Balkans recently.

In his speech in Thessaloniki, Prime Minister Georgievski said, "the long-lasting dream since 1961 of both countries has finally become a reality". "At the same time, this linkage is a symbolic message for cooperation in other areas. I would like to thank the Greek Government and 'Hellenic Petroleum', which turned an investment into a reality, because the investors that last until the end are rare", Georgievski stated.

He expressed his belief that the event was a good beginning for numerous projects of both countries, such as the building of highways Skopje-Thessaloniki and Bitola-Lerin, as well as the new gas pipeline. Congratulating the contractors and the builders, who built the oil pipeline in a short time, the Greek Minister Tsohatzopoulos announced investments in other projects.

Greek Deputy Minister of Foreign Affairs Yoanis Magriotis and executive director of the biggest shareholder in OKTA, company "El Pet Balkaniki", Petros Karalis addressed the audience at the formal celebration in Skopje. Reminding that he had attended the building of the first 10 km of the oil pipeline 2 years ago, Magriotis stated that the conditions were hard in those times, with a doubt for successful realization of the project.

This contemporary oil pipeline, which costs US\$ 110 million (€124 million) is 214 km long, 170 km of which go through in Greece. A total of 2.5 tons of crude oil per year are to flow through it, thus decreasing the current transport costs, and enabling Macedonia a long-standing oil supply. The European Bank for Reconstruction and Development (EBRD) approved a credit in amount of US\$ 50

million (€59 million) for the building of this oil pipeline in December 2000. The largest industrial company in Greece "Hellenic Petroleum", along with the Greek building company "Aegek" invested US\$ 60 million in the project. EBRD successfully sold half of its credit to the Greek National Bank, encouraging a strong private partner to be included in the financing of the project.

FINANCE MINISTER GRUEVSKI MEETS WITH EBRD EXECUTIVE DIRECTORS

Macedonian Finance Minister Nikola Gruevski met with the executive directors of the European Bank for Reconstruction and Development (EBRD) on Wednesday, July 3. The two parties talked about the prior cooperation between the Macedonian Government and this financial institution and its strategy for Macedonia in the period 2000-2004.

At the meeting, Minister Gruevski made a short economic and political analysis of the past 2 years, with a special emphasis on the current situation in the Republic of Macedonia. EBRD directors had positive remarks on the activities of the Macedonian Government in the area of the reforms in the financial sector, as well as the change of the legal regulative, which enables its accordance with European standards, as well as creation of conditions for greater investments in the country.

EBRD officials stated that this institution had financed several projects in Macedonia through credits in the public and private sector, participation in the capital of enterprises and banks, approval of credit lines for support of small and middle enterprises, as well as giving trade guaranties of banks. The total amount of investments of this bank in Macedonia is €301.6 million, which confirms that it is one of the largest investors in the country. Its investment strategy in Macedonia is focused on new projects, with a strong influence on the development of the private sector.

MEETING OF MINISTER GRUEVSKI WITH DIPLOMATIC REPRESENTATIVES TO MACEDONIA

Macedonian Finance Minister Nikola Gruevski held a meeting with the diplomatic representatives of USA, Netherlands, France, Switzerland and Greece, at which he acquainted them with the economic policy of the Macedonian Government, as well as the cooperation with the IMF mission and the World Bank.

As stated by the Finance Ministry, Minister Gruevski presented the policy of the Macedonian Government regarding the compensation of depositors of closed savings banks, which was one of the main reasons for the non-signing of the IMF arrangement. "Gruevski emphasized that the compensation of the depositors was necessary, because it was a burden to the current Government that was imposed by the previous one, which declared this case as organized crime", states the announcement. The meeting also focused on analyses of the prior realization of the objectives of the program that is observed by the IMF, emphasizing that they were entirely fulfilled.

According to the announcement, the Macedonian Finance Minister emphasized that the Macedonian Government would continue to work in the framework of the previously set objectives with the IMF, and would not retreat from the conscientious policy that would be necessary for the signing of an arrangement with this financial institution in October.

"This position by the Government has been confirmed with the latest statistical data that were presented to the diplomatic representatives. The first estimates say that the Gross Domestic Product (GDP) reached a zero growth rate in the first quarter, which completely coincides with the projections for real GDP growth of 3 percent during the year. The IMF assumption for the first quarter was that the GDP would amount at -3 percent. Still, the projection of the Government team was right. The annual inflation that was measured through the costs of living in the first six months amounted to 2.5 percent, continuing the decrease trend beginning from August 2001. This trend is within the framework of the projected average annual inflation of 3.5 percent in 2002. Although there have been disagreements with the IMF on the budget projections, the adoption of the budget rebalance in the Macedonian Assembly meant a decrease of the deficit from 6.9 to 5.7 billion denars, i.e. from 2.7 to 2.4 percent of the GDP, which showed that the Government has continued with the fiscal consolidation", the Finance Ministry announces.

The meeting also tackled the loss-making companies. The Finance Minister stressed that the Government worked intensively on the solution of this problem, receiving many positive remarks from the World Bank. Minister Gruevski announced that the Government would not privatize Public Company "Macedonian Power Energy Company" (ESM) before the parliamentary elections,

because the process for its privatization could not finish by the end of September.

AGREEMENT ON PARTNERSHIP PARTICIPATION OF CANADA POST IN MACEDONIA POST

On July 10, the Macedonian Minister of Transport and Communications Ljupco Balkoski and Vice President of "Canada Post" Robert Chretien signed an Agreement on joint project for partnership participation of "Canada Post" and "Macedonia Post." According to the agreement, new postal operator will be established, which will be operational in the next 20 years.

"The agreement, which will be realized in three stages by 2022, will contribute for better and more efficient results and new postal services, as well as for more efficient financial operations of "Macedonia Post", " Minister Balkoski said after the signing of the Agreement. He informed that the first stage from September 1 to December 31 would focus on financial analyses of the former operations and an investment plan for the next year would be developed. In the second stage, in the course of 2003 the postal technology that should be applied will be determined, the postal services will be defined, the employees will undergo training and joint local postal operator will be established. "The 20-year period of current operations will begin with the third stage, with the technological implementation and the execution of the business and investment plan. The volume of postal operations will increase and the standard of the postal services will improve," Balkoski said.

According to the agreement, despite the constant over-employment in "Macedonia Post" there will be no dismissals. The employees will be employed in the new domestic postal operator and in the future they will work according to the new organizational scheme of the post. "Canada Post" will pay five percent of the realized profit between 2004-2007, ten percent between 2008 - 2012 and thirty-two percent between 2013 - 2022, which will be allocated to the Macedonian Budget. The local post operator, according to the Agreement is obliged to invest around € 40 million in "Macedonia Post." Balkovski explained that the model and the way of functioning of the new postal operator would be determined in 2003, adding that the Macedonian Government would appoint the director of "Macedonia Post" by 2004.

MINISTER NOVKOVSKI AND WB REPRESENTATIVE BRICKNELL SIGN COOPERATION AGREEMENT

Macedonian Minister of Education Nenad Novkovski and Marie-Helene Bricknell, the World Bank Resident Representative, signed a Memorandum of Cooperation between the Ministry of Education and Sciences and the World Bank. "The Cooperation Memorandum initiates a realization of the Project on modernisation of the education sector, making it one of its priorities in this sphere for the next year," Novkovski said, adding that the project includes a number of Macedonian and foreign experts. The project is aimed at improving the efficiency of schools in the country and the quality of teaching process, while the main emphasise will be put on the reforms in administration sector.

The Macedonian Education and Science Ministry and the World Bank agreed on establishing a Donation Fund for improving the teaching process at some schools in the country as well as continuing the work of the Grading Department. The Fund will be operational in the period between September 2002 and June 2003. Marie-Helene Bricknell underlined that this Project would assist in modernization of the education system in Macedonia. The Dutch Government also agreed to grant financial support to the Project as a partner to the Macedonian Government, she added. The Project will cost about US\$ 20 million, i.e. WB approved a credit of US\$ 10 million, while the Dutch Government donates the other 10 million.

WB IS TO EXTEND OHRID LAKE PROJECT FOR ANOTHER YEAR

The World Bank has decided to extend the Project on Ohrid Lake Protection for one year i.e. until June 2003, Project's Office in Ohrid announced. The main goals in the future period will be reaching an agreement between the Macedonian and the Albanian part in order to protect the lake, developing a geographic-information system of the lake and implementation of the pilot-projects in the region.

The financial funds are provided from the rest of the Macedonian grant, as the management team succeeded to save 50 percent of the granted money in the past three years. According to Dejan Panovski, head of Ohrid Office, the model applied for protection of Ohrid Lake will be also used for protection of Skadar Lake in Albania.

MACEDONIA AND GREECE SIGN DEVELOPMENT AND COOPERATION AGREEMENT

Macedonian Economy Minister Besnik Fetai and Greek Deputy Foreign Minister Andreas Loveredoss signed on July 30, a five-year development and cooperation agreement. The program is part of the Greek plan for reconstruction and development of the Balkan countries. Greece intends to grant €550 million in the next five years to the Balkan countries. Macedonia is to receive €74.84 million.

"The agreement will allow economic, social and institutional reconstruction of the country," Fetai said. He informed that 80 percent of the money is to be used for financing public sector projects, while the other 20 percent will go to small and middle size companies. By this agreement, Greece will also help Macedonia to attract foreign investments from international institutions.

"Together with Greece, these institutions are to invest in many projects. Macedonia has already made contact with the World Bank, which will also invest in the country," Fetai said. Loveredoss considered that signing of the Agreement was a serious step forward towards future bilateral cooperation and good-neighboring relations. A stable politics would help in surpassing the existing problems, he added.

MACEDONIA AND EBRD SIGN LOAN AGREEMENT FOR RECONSTRUCTION OF OHRID AIRPORT

Macedonian Finance Minister Nikola Gruevski and the representative of the European Bank for Reconstruction and Development to Macedonia, Zsuzsanna Hargitai signed Tuesday in Skopje a Loan Agreement for realization of the Project on promoting the Civil Aviation Authority's system and rehabilitation of Ohrid Airport worth € 11.2 million. Macedonian Minister of Transport and Communications Ljupco Balkoski and Director of the Civil Aviation Authority Mile Manolev attended the ceremony.

The project is aimed at procuring navigation equipment, modernization of the runway at Ohrid airport and institutional enhancement of the CAA. The realization of the project will increase the safety of the air traffic in the country and will harmonize the air control systems with the European standards and the recommendations of the International Civil Aviation Organization (ICAO). The project should also enhance the security standards and increase the flow capacity of the air traffic in Macedonia.

According to Manolev, this was not the first credit, aimed at modernization of the system of airport's infrastructure facilities. "This is the third credit line. The first two were used for modernization of the air traffic control system at Skopje Airport and for reconstruction of the runaways. The projects should be completed at the beginning of 2004, when we should start to reimburse the loan agreement signed today," Manolev said. The deadline for reimbursement is 12 years, with three years of grace period, and the interest rate of 5.9 percent. The reconstruction of Ohrid Airport should be completed by the end of 2005.